

CITY OF LAWTON

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2011

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CITY OF LAWTON

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeff Nitzschke	Mayor	January 2012
Don Grigg	Council Member	January 2012
Perry Ludwig	Council Member	January 2012
Rick Schorg	Council Member	January 2012
Reed Burson	Council Member	January 2014
Terry Masching	Council Member	January 2014
Patricia L. Washburn	City Clerk/Treasurer	Indefinite
Deb Dunn	Assistant City Clerk/Treasurer	Indefinite
Glenn Metcalf	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Lawton, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of City of Lawton, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each major fund of City of Lawton as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2012, on our consideration of City of Lawton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 11 and 25 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Lawton's basic financial statements. Other supplementary information included in Schedules 1 and 2, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

February 7, 2012

Hungelman, Pertyler & Co.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Lawton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities were \$577,790 for the year ended June 30, 2011 and included \$173,370 in property taxes, \$87,815 in tax increment financing collections, and \$77,587 in local option sales tax.

Disbursements of the City's governmental activities were \$354,975 for the year ended June 30, 2011 and included \$124,976 for public works, \$85,319 for general government, \$56,018 for debt service, and \$52,199 for public safety.

The City's total cash basis net assets increased 16.1%, or approximately \$218,000, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased approximately \$223,000 and the assets of the business type activities decreased by approximately \$5,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the City's indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, and debt service. Property tax and state and federal grants finance most of these activities.

Business Type Activities include water, and sewer services. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two categories of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund, and (2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing. The governmental fund financial statement provides a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements, and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds. These are considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year ended</u> <u>June 30, 2011</u>
Receipts:	
Program receipts:	
Charges for service	\$ 75,452
Operating grants and contributions	130,678
Capital grants and contributions	14,827
General receipts:	
Property tax	173,370
Tax increment financing	87,815
Local option sales tax	77,587
Other city taxes	3,041
Unrestricted interest on investments	13,356
Other general receipts	1,664
Total receipts	<u>577,790</u>
Disbursements:	
Public safety	52,199
Public works	124,976
Culture and recreation	31,009
Community and economic development	5,454
General government	85,319
Debt service	56,018
Total disbursements	<u>354,975</u>
Increase in cash basis net assets	222,815
Cash basis net assets beginning of year	<u>651,370</u>
Cash basis net assets end of year	<u>\$ 874,185</u>

The cash basis net assets of the City's governmental activities increased 34.2%, or approximately \$223,000 due primarily to the following:

Property valuations increased with additional housing. TIF Revenues increased over \$25,000 due to additional housing built in the TIF area. Road Use Tax receipts increased approximately \$7,500. Intergovernmental receipts reflect \$10,000 grant from Missouri River Historical District for new generator. Service fee receipts were up slightly due to additional housing. Miscellaneous receipts included a donation of approximately \$15,000 for the purchase of a new electronic informational sign. Miscellaneous receipts also include \$12,000 from the sale of City property.

Expenditures were about \$70,000 less in FY 2011 for the Fire Department. In FY 2010 a new truck had been purchased. Expenditures in public works were about \$90,000 less in FY 2011 as fewer streets were overlaid and a Bobcat Toolcat had been purchased the previous year. An additional \$15,000 was expended in culture and recreation with the purchase of the new electronic informational sign.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year ended June 30, 2011</u>
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 154,688
Sewer	37,969
Operating grants and contributions	10,000
General receipts:	
Unrestricted interest on investments	11,924
Total receipts	<u>214,581</u>
Disbursements:	
Water	186,114
Sewer	33,759
Total disbursements	<u>219,873</u>
Decrease in cash basis net assets	(5,292)
Cash basis net assets beginning of year	<u>696,535</u>
Cash basis net assets end of year	<u>\$ 691,243</u>

Total business type activities cash basis net assets decreased from a year ago, from approximately \$697,000 to approximately \$691,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Lawton completed the year, its governmental funds reported a combined fund balance of \$874,185, an increase of \$222,815 from last year's total of \$651,370. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$82,074 from the prior year to \$634,652.

The Special Revenue, Road Use Tax Fund cash balance increased by \$29,767 to \$75,647 during the fiscal year. Receipts were approximately \$7,500 more in FY 2011 than in FY 2010. Disbursements were approximately \$20,000 less as fewer street projects were done in FY 2011.

The Special Revenue, Local Option Sales Tax Fund cash balance increased by \$79,177 to \$141,555 primarily due to no expenditures from the Local Option Sales Tax Fund in FY 2011.

The Special Revenue, Tax Increment Financing Fund cash balance increased by \$31,797 from the prior year to \$22,331 because of increased taxable valuation in the TIF district.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance decreased by \$22,274 to \$512,862 during the fiscal year primarily because of a water main extension project to a rural area just outside city limits. Total cost of this project was approximately \$34,000 and will be assessed to property owners affected. The city will recover 100% of the added expenditures.

The Enterprise, Sewer Fund cash balance increased by \$16,982 to \$178,381 during the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time due to the following:

Refurbishment of 1990 fire truck for additional expenditures of \$15,000. This refurbishment was expected to have been done in FY 2010. No street overlay projects as originally planned resulted in \$25,000 less expenditures. Purchase of electronic informational sign caused additional expenditures of \$8,000 that had not originally been budgeted. Also purchase of new Christmas decorations caused an additional \$2,000 needed in budget. Final fund balance was not affected by this budget amendment.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$827,000 in bonds and loans outstanding, compared to \$893,000 last year, as shown below.

	<u>Outstanding Debt at Year-End</u>	
	Year ended June 30	
	<u>2011</u>	<u>2010</u>
General obligation notes	\$ 424,000	\$ 462,000
Revenue notes	403,000	431,000
Total	<u>\$ 827,000</u>	<u>\$ 893,000</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$424,000 is significantly below its constitutional debt limit of approximately \$2.2 million.

ECONOMIC FACTORS

The City Council has not raised service fees for several years as they are aware of the economic concerns of so many of the residents. The General Levy has remained at 8.1000 for several years. An additional .50513 was levied during FY 2011 to assist with insurance costs.

The FY 2012 budget was set at the same 8.1000 for the General Levy and also included another .24478 to assist with insurance costs. The FY 2012 budget has already been amended to include early payoff of Water Revenue Bonds of \$170,000. Significant savings of interest on these Water Revenue Bonds is expected over the course of the years until their original maturity. The FY 2012 budget also includes a new sewer lift station project of approximately \$300,000. Funds for this project are expected to come from the Sewer Fund as well as from the Local Option Sales Tax Fund.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Patricia Washburn, City Clerk, P.O. Box 275, Lawton, Iowa 51030.

CITY OF LAWTON
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit A

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 52,199	\$ 590	\$ 36,642	\$ -	\$ (14,967)	\$ -	\$ (14,967)
Public works	124,976	71,617	74,278	-	20,919	-	20,919
Culture and recreation	31,009	-	5,552	14,827	(10,630)	-	(10,630)
Community and economic development	5,454	-	-	-	(5,454)	-	(5,454)
General government	85,319	3,245	14,206	-	(67,868)	-	(67,868)
Debt service	56,018	-	-	-	(56,018)	-	(56,018)
Total governmental activities	354,975	75,452	130,678	14,827	(134,018)	-	(134,018)
Business type activities:							
Water	186,114	154,688	-	-	-	(31,426)	(31,426)
Sewer	33,759	37,969	10,000	-	-	14,210	14,210
Total business type activities	219,873	192,657	10,000	-	-	(17,216)	(17,216)
Total	\$ 574,848	\$ 268,109	\$ 140,678	\$ 14,827	(134,018)	(17,216)	(151,234)
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					173,370	-	173,370
Tax increment financing					87,815	-	87,815
Local option sales tax					77,587	-	77,587
Other city taxes					3,041	-	3,041
Unrestricted interest on investments					13,356	11,924	25,280
Miscellaneous					1,664	-	1,664
Total general receipts					356,833	11,924	368,757
Change in cash basis net assets					222,815	(5,292)	217,523
Cash basis net assets beginning of year					651,370	696,535	1,347,905
Cash basis net assets end of year					\$ 874,185	\$ 691,243	\$ 1,565,428

(continued)

CITY OF LAWTON
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit A
(continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for	Operating	Capital	Governmental	Business Type	Total
<u>Disbursements</u>	<u>Service</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Activities</u>	<u>Activities</u>	
		<u>Contributions</u>	<u>Contributions</u>			
Cash Basis Net Assets						
Restricted:						
Expendable:						
Streets				\$ 75,647	\$ -	\$ 75,647
Tax increment purposes				22,331	-	22,331
Other purposes				141,555	-	141,555
Unrestricted				634,652	691,243	1,325,895
Total cash basis net assets				<u>\$ 874,185</u>	<u>\$ 691,243</u>	<u>\$ 1,565,428</u>

See notes to financial statements.

CITY OF LAWTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B

	Special Revenue				Total
	General	Road Use Tax	Local Option Sales Tax	Tax Increment Financing	
Receipts:					
Property tax	\$ 173,370	\$ -	\$ -	\$ -	\$ 173,370
Tax increment financing	-	-	-	87,815	87,815
Other city tax	3,041	-	77,587	-	80,628
Licenses and permits	2,935	-	-	-	2,935
Use of money and property	25,972	-	1,590	-	27,562
Intergovernmental	33,073	69,046	-	-	102,119
Charges for services	59,384	-	-	-	59,384
Miscellaneous	43,977	-	-	-	43,977
Total receipts	<u>341,752</u>	<u>69,046</u>	<u>79,177</u>	<u>87,815</u>	<u>577,790</u>
Disbursements:					
Operating:					
Public safety	52,199	-	-	-	52,199
Public works	85,697	39,279	-	-	124,976
Culture and recreation	31,009	-	-	-	31,009
Community and economic development	5,454	-	-	-	5,454
General government	85,319	-	-	-	85,319
Debt service	-	-	-	56,018	56,018
Total disbursements	<u>259,678</u>	<u>39,279</u>	<u>-</u>	<u>56,018</u>	<u>354,975</u>
Net change in cash balances	82,074	29,767	79,177	31,797	222,815
Cash balances beginning of year	<u>552,578</u>	<u>45,880</u>	<u>62,378</u>	<u>(9,466)</u>	<u>651,370</u>
Cash balances end of year	<u>\$ 634,652</u>	<u>\$ 75,647</u>	<u>\$ 141,555</u>	<u>\$ 22,331</u>	<u>\$ 874,185</u>

CITY OF LAWTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B
(continued)

	Special Revenue				Total
	General	Road Use Tax	Local Option Sales Tax	Tax Increment Financing	
Cash Basis Fund Balances					
Restricted for:					
Streets	\$ -	\$ 75,647	\$ -	\$ -	\$ 75,647
Tax increment financing projects	-	-	-	22,331	22,331
Other purposes	-	-	141,555	-	141,555
Unassigned	634,652	-	-	-	634,652
Total cash basis fund balances	<u>\$ 634,652</u>	<u>\$ 75,647</u>	<u>\$ 141,555</u>	<u>\$ 22,331</u>	<u>\$ 874,185</u>

See notes to financial statements.

CITY OF LAWTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Exhibit C

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 146,352	\$ 37,969	\$ 184,321
Miscellaneous	8,336	-	8,336
Total operating receipts	154,688	37,969	192,657
Operating disbursements:			
Business type activities	136,706	33,759	170,465
Excess of operating receipts over operating disbursements	17,982	4,210	22,192
Non-operating receipts (disbursements)			
Interest on investments	9,152	2,772	11,924
Intergovernmental	-	10,000	10,000
Debt service	(49,408)	-	(49,408)
Net non-operating receipts (disbursements)	(40,256)	12,772	(27,484)
Net change in cash balances	(22,274)	16,982	(5,292)
Cash balances beginning of year	535,136	161,399	696,535
Cash balances end of year	\$ 512,862	\$ 178,381	\$ 691,243
Cash Basis Fund Balances			
Unrestricted	\$ 512,862	\$ 178,381	\$ 691,243

See notes to financial statements.

CITY OF LAWTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Lawton is a political subdivision of the State of Iowa located in Woodbury County. It was first incorporated in 1906 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer services for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Lawton has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City of Lawton has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of or appoint representatives to the following boards and commissions: Woodbury County Assessor's Conference Board, Woodbury County Joint Disaster Services Commission, Woodbury County E911 Service Board, and Woodbury County Area Solid Waste Agency.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

CITY OF LAWTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and, (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the main operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for monies received to be used for property tax relief and other purposes as determined by the City Council.

The Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of general obligation debt used for improvements within the urban renewal area.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

City of Lawton maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

CITY OF LAWTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting - (Continued)

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the business type activities function.

2. CASH

The City's deposits in banks at June 30, 2011, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement Number 3, as amended by Statement 40.

CITY OF LAWTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

2. CASH – (Continued)

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

3. NOTES PAYABLE

Annual debt service requirements to maturity for general obligation notes and revenue notes are as follows:

Year Ending	<u>General Obligation Notes</u>		<u>Water Revenue Notes</u>		<u>Total</u>	
<u>June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 40,000	\$ 16,536	\$ 29,000	\$ 20,078	\$ 69,000	\$ 36,614
2013	41,000	14,976	30,000	18,700	71,000	33,676
2014	43,000	13,377	31,000	17,200	74,000	30,577
2015	45,000	11,700	34,000	15,650	79,000	27,350
2016	47,000	9,945	35,000	13,950	82,000	23,895
2017-2021	208,000	20,670	199,000	42,150	407,000	62,820
2022	-	-	45,000	2,250	45,000	2,250
	<u>\$ 424,000</u>	<u>\$ 87,204</u>	<u>\$ 403,000</u>	<u>\$ 129,978</u>	<u>\$ 827,000</u>	<u>\$ 217,182</u>

Water Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$525,000 in water revenue notes issued in April 2006. Proceeds from the notes provided financing to pay a portion of the cost of constructing improvements and extensions to the water system and to refund the then outstanding water revenue capital loan notes.. The notes are payable solely from water customer net receipts and are payable through 2022. The total principal and interest remaining to be paid on the notes is \$532,978. For the current year, principal and interest paid and total customer net receipts were \$49,408 and \$17,982 respectively.

The resolution providing for the issuance of water revenue notes include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate sewer revenue sinking account for the purpose of making the note principal and interest payments when due.

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

CITY OF LAWTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

4. PENSION AND RETIREMENT BENEFITS – (Continued)

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2011, was \$7,699, equal to the required contribution for the year.

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

Type of Benefit

Vacation

\$ 2,704

This liability has been computed based on rates of pay in effect at June 30, 2011.

6. SERVICE AGREEMENTS

The City has an agreement with CHN Garbage Services for refuse collection and hauling of solid waste. Payments under this agreement were \$36,491 for the year ended June 30, 2011.

7. INTERGOVERNMENTAL AGREEMENT

The City entered into an agreement with the Woodbury County Area Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, to provide for the disposal of solid waste from within the City. For the year ended June 30, 2011, \$13,690 was paid pursuant to the agreement.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The landfill was closed during the fall of 2006 and the post-closure costs to the Agency have been estimated at \$401,240, as of June 30, 2010. The Agency has accumulated the resources necessary to fund these costs and, as of June 30, 2010, deposits of \$401,240 are restricted for these purposes. No estimate has been made regarding the effect of future assessments to the City.

CITY OF LAWTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

8. BUDGET OVEREXPENDITURE

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2011, the disbursements in the business type activities function exceeded the amounts budgeted.

9. RISK MANAGEMENT

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2011 were \$12,375.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

CITY OF LAWTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

9. RISK MANAGEMENT – (Continued)

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. SUBSEQUENT EVENT

The City entered into a contract on August 17, 2011 for approximately \$200,000 to replace the City's sewer lift station.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAWTON
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES –
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final To Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 173,370	\$ -	\$ 173,370	\$ 168,790	\$ 168,790	\$ 4,580
Tax increment financing	87,815	-	87,815	82,836	82,836	4,979
Other city tax	80,628	-	80,628	72,292	72,292	8,336
Licenses and permits	2,935	-	2,935	3,000	3,000	(65)
Use of money and property	27,562	11,924	39,486	25,000	25,000	14,486
Intergovernmental	102,119	10,000	112,119	89,341	89,341	22,778
Charges for service	59,384	184,321	243,705	223,000	223,000	20,705
Miscellaneous	43,977	8,336	52,313	3,000	3,000	49,313
Total receipts	<u>577,790</u>	<u>214,581</u>	<u>792,371</u>	<u>667,259</u>	<u>667,259</u>	<u>125,112</u>
Disbursements:						
Public safety	52,199	-	52,199	39,300	54,300	2,101
Public works	124,976	-	124,976	200,250	175,250	50,274
Culture and recreation	31,009	-	31,009	24,000	32,000	991
Community and economic development	5,454	-	5,454	5,000	7,000	1,546
General government	85,319	-	85,319	97,500	97,500	12,181
Debt service	56,018	-	56,018	56,018	56,018	-
Business type activities	-	219,873	219,873	219,408	219,408	(465)
Total disbursements	<u>354,975</u>	<u>219,873</u>	<u>574,848</u>	<u>641,476</u>	<u>641,476</u>	<u>66,628</u>
Excess (deficiency) of receipts over disbursements	222,815	(5,292)	217,523	25,783	25,783	191,740
Balance, beginning of year	<u>651,370</u>	<u>696,535</u>	<u>1,347,905</u>	<u>1,081,324</u>	<u>1,347,904</u>	<u>1</u>
Balance, end of year	<u>\$ 874,185</u>	<u>\$ 691,243</u>	<u>\$ 1,565,428</u>	<u>\$ 1,107,107</u>	<u>\$ 1,373,687</u>	<u>\$ 191,741</u>

See accompanying independent auditor's report.

CITY OF LAWTON
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION – BUDGETARY REPORTING
JUNE 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2011 the budget was amended one time which resulted in no increase or decrease to budgeted disbursements. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements in the business type activities function exceeded the amounts budgeted.

SUPPLEMENTARY INFORMATION

CITY OF LAWTON
SCHEDULE OF INDEBTEDNESS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Schedule 1

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
General Obligation Capital Loan Notes	July 28, 2008	3.90%	\$ 535,000	<u>\$ 462,000</u>	<u>\$ -</u>	<u>\$ 38,000</u>	<u>\$ 424,000</u>	<u>\$ 18,018</u>
Water Revenue Capital Loan Notes	April 17, 2006	4.75-5.00%	\$ 525,000	<u>\$ 431,000</u>	<u>\$ -</u>	<u>\$ 28,000</u>	<u>\$ 403,000</u>	<u>\$ 21,408</u>

See accompanying independent auditor's report.

CITY OF LAWTON
NOTE MATURITIES
JUNE 30, 2011

Schedule 2

<u>Year Ending June 30,</u>	<u>General Obligation Capital Loan Notes Issued July 28, 2008</u>		<u>Water Revenue Capital Loan Notes Issued April 17, 2006</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2012	3.90%	\$ 40,000	4.75%	\$ 29,000
2013	3.90	41,000	5.00	30,000
2014	3.90	43,000	5.00	31,000
2015	3.90	45,000	5.00	34,000
2016	3.90	47,000	5.00	35,000
2017	3.90	49,000	5.00	35,000
2018	3.90	51,000	5.00	39,000
2019	3.90	53,000	5.00	40,000
2020	3.90	55,000	5.00	40,000
2021	3.90	-	5.00	45,000
2022	3.90	-	5.00	45,000
		<u>\$ 424,000</u>		<u>\$ 403,000</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Lawton, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of City of Lawton, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 7, 2012. Our report expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Lawton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Lawton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Lawton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-11, I-B-11, I-C-11, and I-D-11 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Lawton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Lawton's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Lawton's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Lawton, and other parties to whom City of Lawton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

February 7, 2012

Hungelman, Putzier & Co.

CITY OF LAWTON
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- I-A-11 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The City will review internal control procedures and attempt better segregation of duties using both individuals in City Hall.

Conclusion - Response accepted.

- I-B-11 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response - Management will continue to attend classes as offered by the State, taking particular interest in accounting classes.

Conclusion - Response accepted.

- I-C-11 Reconciliation of Utility Billings, Collections, and Delinquencies - Utility billings, collections, and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile utility billings, collections, and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response - Management will establish a reconciliation report of utility billings, collections, and delinquencies and will have these reviewed by the Council monthly.

Conclusion - Response accepted.

CITY OF LAWTON
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part I: Findings Related to the Financial Statements: (Continued)

INTERNAL CONTROL DEFICIENCIES: (continued)

I-D-11 Time Cards – We noted that time cards were not initialed or otherwise marked to indicate approval.

Recommendation – Time cards should be reviewed and marked to indicate approval of hours before being entered into the payroll system

Response – The Mayor will review and approve all time cards prior to being entered into the payroll system.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-11 Certified Budget - Disbursements during the year ended June 30, 2011, exceeded the amount budgeted in the business type activities function. Chapter 384.20 of the Code of Iowa states in part that public moneys may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Management is aware of this requirement and regrets the oversight this fiscal year. We will amend as needed in the future.

Conclusion – Response accepted.

II-B-11 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-11 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jeff Nitzschke, Mayor, owner of Nitzschke Construction	Labor and repair	\$1,526
Rick Schorg, Council Member, owner of Sign Pro	Supplies	\$100

In accordance with chapter 362.5(3)(k) of the Code of Iowa, the transactions above do not appear to represent conflicts of interest since the cumulative amounts were less than \$2,500 during the fiscal year.

CITY OF LAWTON
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part II: Other Findings Related to Required Statutory Reporting: (Continued)

- II-E-11 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-11 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa. However, the investment policy was last reviewed several years ago and since that time certain sections of the Code of Iowa dealing with the investment policy have been changed.

Recommendation - The Council should review and approve the investment policy periodically and update the Iowa Code references.

Response - The investment policy has been revised to reflect current Iowa Code references.

Conclusion - Response accepted.

- II-H-11 Revenue Bonds - Although the City has established the water revenue sinking fund as required by the bond resolution, it is currently not adequately financed.

Recommendation - The City should make the required transfers to adequately finance the water sinking fund.

Response - The required transfers had been inappropriately tagged as water debt service. Funds have now been transferred into a water revenue sinking fund.

Conclusion - Response accepted.

- II-I-11 Excess Balances - The following funds had a balance at June 30, 2011, which is in excess of one year's expenditures:

General
Special Revenue - Road Use
 - Local Option Sales Tax

Recommendation - While it appears that these funds may have an excessive balance, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - The Council will consider fund balances during the budget process. Several projects are in discussion at this time such as a replacement lift station project, street overlays or complete street replacements, shelter house renovations, etc.

Conclusion - Response accepted.

CITY OF LAWTON
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part II: Other Findings Related to Required Statutory Reporting: (Continued)

II-J-11 City Code of Ordinances - The City has not compiled the City ordinances within the past five years.

Recommendation - Chapter 380.8 of the Code of Iowa states in part, "At least once every five years, a city shall compile a Code of ordinances containing all City ordinances in effect, except grade ordinances, bond ordinances, zoning ordinances, and ordinances vacating streets and alleys". The City should compile the City ordinances as required.

Response – The Council is actively reviewing the code of ordinances at this time.

Conclusion – Response accepted.

II-K-11 Payment of General Obligation Bonds – General obligation bond payments were paid from the Special Revenue, Tax Increment Financing Fund. Chapter 384.4 of the Code of Iowa states in part, "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation – The City should transfer from Special Revenue, Tax Increment Financing Fund to the Debt Service Fund for future funding contributions. Payment of the bonds should then be disbursed from the Debt Service Fund.

Response – Monthly transfers are now being made from the Special Revenue, Tax Increment Financing Fund into the Debt Service Fund for future disbursements.

Conclusion – Response accepted.